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Productivity gains propelled economic growth in the third quarter of 1994. (Productivity is measured by output per hour of all persons engaged in production.) Concerns about inflation prompted the Federal Reserve to raise short-term key interest rates by 3/4 percent. A number of economists regard the move unwarranted. They argue that the actual and potential gains in productivity would be sufficient to keep inflation under control.

At seasonally adjusted annual rates, productivity grew by 3.1 percent in the broader business sector (including the farm and nonfarm subsectors) from the second to the third quarter of 1994. Output grew by 4.0 percent, hours worked increased by 0.8 percent, and unit labor costs rose by a mere 0.2 percent. U.S. labor productivity also showed solid gains in comparison with the third quarter of 1993. Gains were particularly impressive in the manufacturing of durable goods, where productivity grew by 7.9 percent

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at a seasonally adjusted 3.9 percent in the third quarter of 1994, following a 4.1-percent growth in the second and a 3.3-percent growth in the first quarter.

The annualized rate of real economic growth in the third quarter was 3.5 percent in the United Kingdom.

Table 1
Productivity and costs, third-quarter 1994 (seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Business	3.1	4.0	0.8	3.3	-0.3	0.2
Nonfarm business	2.7	3.9	1.2	2.9	-0.7	0.1
Manufacturing	5.3	7.1	1.7	3.1	-0.5	-2.1
Durable	6.4	9.1	2.5	2.9	-0.7	-3.3
Nondurable	3.3	4.1	0.7	3.2	-0.3	-0.1
	Percent change from same quarter a year ago					
Business	2.4	5.4	3.0	3.0	0.2	0.6
Nonfarm business	2.1	5.1	2.9	3.0	0.1	0.9
Manufacturing	6.4	7.8	1.3	2.4	-0.5	-3.8
Durable	7.9	10.0	2.0	2.3	-0.5	-5.2
Nondurable	4.2	4.5	0.3	2.3	-0.5	-1.8

Note.—Labor input is provided by BLS employment surveys. Output is equal to real GDP less general government, output of nonprofit organizations, output of paid employees of private households, rental value of owner-occupied dwellings, and statistical discrepancy.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

In the second quarter of 1994, real economic growth was 6.4 percent in Canada, 4.1 percent in France, 4.0 percent in Germany, 5.7 percent in Italy, and -1.6 percent in Japan.

Industrial Production

Industrial production rose by 0.7 percent in October, following a 0.1-percent decline in September 1994. The index increased by 0.8 percent in August. Industrial production increased by 6.7 percent from October 1993 to the corresponding month of 1994. The output of both durable and nondurable goods grew significantly in October 1994. The substantial output growth in October boosted total capacity utilization to 84.9 percent from 84.5 percent in September. Industrial capacity utilization rose by 2.6 percent over a year earlier.

Other G-7 member countries reported the following annual growth rates of industrial production. For the year ending September 1994, Germany reported an increase of 1.6 percent, Japan reported an increase of 1.8 percent, the United Kingdom reported an increase of 6.7 percent, France reported an increase of 4.9 percent, Italy reported an increase of 7.3 percent. For the year ending August 1994, Canada reported an increase of 8.0 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased by 0.1 percent in October, following an increase of 0.2 percent in September. The CPI advanced by 2.6 percent during the 12 months ending October 1994.

During the 1-year period ending October 1994, prices increased by 2.8 percent in Germany, by 1.6 percent in France, by 3.8 percent in Italy, by 0.2 percent in Japan, and by 2.4 percent in the United Kingdom. Prices declined by 0.2 percent in Canada.

Employment

The Bureau of Labor Statistics reported that the Nation's job market continued to improve in October and November 1994. At 5.6 percent, the November unemployment rate was 1.1 percentage points below the January 1994 level. Nonfarm payroll employment—as measured by the survey of employers—rose by 350,000 in November, including substantial gains in factory jobs, services, and construction. Average earnings in the private sector decreased slightly following the marked rise in October. Total employment—as measured by the household survey—experienced its third consecutive large increase, after rising only modestly earlier in the year.

The unemployment rates for adult men (4.9 percent), teenagers5.3 percent), whites (4.8 percent), blacks0.5 percent), and Hispanics (8.6 percent) all showed declines from October to November. The rate for women fell by 0.3 percentage point to 5.0 percent, after showing little movement since May. The jobless rate for each of these major labor force groups has declined since January.

Total employment rose by a seasonally adjusted 608,000 to 124.2 million in October and by 372,000 in November to a seasonally adjusted level of 124.6 million. The employment-population ratio—the proportion of the working-age population with jobs—has risen from 62.2 percent in July to 62.9 percent in October, and to 63.1 percent in November.

The civilian labor force rose by 493,000 in October to 131.8 million and to 131.9 million in November. Labor force growth has been strong since July, after lagging during the first half of the year. The labor force participation rate increased by 0.2 percentage point to 66.8 percent, remaining the highest percentage since July.

For comparison with other G-7 countries, the unemployment rate in October was 10.0 percent in Canada, 12.7 percent in France, 8.2 percent in Germany, 11.9 percent in Italy, 3.0 percent in Japan, and 8.9 percent in the United Kingdom.

Forecasts

Forecasters expect real growth in the United States to average around 2.6 percent in the fourth quarter of 1994 and to increase slightly to 2.7 percent in the first quarter of 1995. In the first half of 1995, GDP growth is expected to average 2.6 percent. Factors that may restrain the recovery in 1994 include the impact of rising interest rates on new investment, output, and incomes, and the contractionary impact of the decline in government spending. Table 2 shows macroeconomic projections for the U.S. economy for October 1994 to June 1995, by six major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 5.9 percent in the remainder of 1994 and the first quarter of 1995, then a decline to 5.8 percent in the second quarter of 1995. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.7 in the fourth quarter of 1994, then to rise in the first quarter of 1995 to 3.3 percent and to decline afterwards. Inflation is expected to remain under control.

Table 2
Projected changes of selected U.S. economic indicators, by quarters, Oct. 94-June 95
(Percent)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 fore-casts
	GDP current dollars						
1994:							
Oct.-Dec	7.0	4.8	4.1	6.2	4.9	5.2	5.4
1995:							
Jan.-Mar.	8.2	6.3	4.9	6.7	4.9	5.7	6.1
Apr.-June	7.7	6.2	5.0	5.8	3.8	6.2	5.8
	GDP constant (1987) dollars						
1994:							
Oct.-Dec.	3.7	1.6	1.9	3.5	2.8	2.1	2.6
1995:							
Jan.-Mar.	4.2	2.7	2.2	2.9	2.0	2.5	2.7
April-June.	3.9	2.3	2.7	2.5	1.4	2.3	2.5
	GDP deflator index						
1994:							
Oct.-Dec.	3.2	3.2	2.1	2.6	2.0	3.0	2.7
1995:							
Jan.-Mar.	3.8	3.5	2.6	3.8	2.8	3.1	3.3
April-June.	3.7	3.8	2.2	3.0	2.4	2.8	3.0
	Unemployment, average rate						
1994:							
Oct.-Dec	5.8	5.9	5.9	5.9	6.0	6.0	5.9
1995:							
Jan.-Mar.	5.7	5.9	5.9	5.9	5.9	6.0	5.9
April-June.	5.6	5.9	5.9	5.8	5.9	5.9	5.8

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: November 1994.

Source: Compiled from data provided by the Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $59.7 billion and imports of $69.8 billion in September 1994 resulted in a goods and services trade deficit of $10.1 billion, $0.4 billion more than the August deficit of $9.7 billion. The September 1994 deficit was $2.1 billion more than the deficit registered in September 1993 ($8.0 billion) and $1.8 billion higher than the average monthly deficit registered during the previous 12 months ($8.3 billion).

The September trade deficit in goods was $14.6 billion, approximately $0.5 billion more than the August deficit of $14.1 billion. The September services surplus was $4.5 billion, approximately $0.1 billion more than the August surplus of $4.4 billion.

The annualized January-September trade deficit was $109.6 billion. The annualized deficit on goods trade was $164.3 billion, and the services trade surplus was $54.7 billion. In 1993, the actual deficit was $75.7 billion.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3. Nominal export changes and trade balances for specific major commodity sectors are shown in table 4. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 5 and U.S. trade in services by major category is shown in table 6.

Table 3
U.S. trade in goods and services, seasonally adjusted, August-September 1994
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Sep. 94	Aug. 94	Sep. 94	Aug. 94	Sep. 94	Aug. 94
Trade in goods (BOP basis)						
Current dollars—						
Including oil	43.5	44.1	58.1	58.2	-14.6	-14.1
Excluding oil	43.8	44.5	53.0	52.7	-9.2	-8.2
Trade in services						
Current dollars	16.1	15.8	11.6	11.4	4.5	4.4
Trade in goods and services						
Current dollars	59.7	59.9	69.8	69.6	-10.1	-9.7
Trade in goods (Census basis)						
1987 dollars	43.0	43.7	56.6	55.6	-13.6	-11.9
Advanced-technology products (not seasonally adjusted)	10.6	9.9	9.3	8.4	1.3	1.6

Note.—Data on goods trade are presented on a Balance-of-Payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: *U.S. Department of Commerce News (FT 900)*, Nov. 1994.

Table 4
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 1993-Sep. 1994

Sector	1994 Exports Jan.-Sep. 1994	1994 Exports Aug. 1994	Change Jan. Sep. 1994 over Jan.-Sep. 1993	Sep. 1994 over Aug. 1994	Share of total, Jan.-Sep. 1994	Trade balances, Jan.-Sep. 1994
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	22.1	2.7	12.2	12.5	5.9	-15.0
Airplane	14.7	1.6	-5.2	-5.9	4.0	11.9
Airplane parts	7.2	.8	4.3	0	1.9	5.1
Electrical machinery	32.6	3.8	19.9	-2.6	8.7	-8.8
General industrial machinery	16.0	1.9	9.6	0	4.3	.1
Iron & steel mill products	2.6	.3	4.0	0	.7	-6.7
Inorganic chemicals	3.0	.3	3.4	-25.0	.8	0.1
Organic chemicals	9.3	1.1	12.0	0	2.5	1.3
Power-generating machinery	15.1	1.7	5.6	0	4.0	0.7
Scientific instruments	12.1	1.4	7.1	7.7	3.2	4.9
Specialized industrial machinery	14.5	1.8	10.7	0	3.9	2.1
Telecommunications	11.4	1.4	21.3	7.7	3.0	-11.7
Textile yarns, fabrics and articles	4.7	.6	6.8	0	1.3	-2.2
Vehicle parts	15.1	1.9	4.9	5.6	4.0	0.5
Other manufactured goods[1]	20.9	2.4	13.0	0	5.6	-9.1
Manufactured exports not included above	94.8	10.6	10.7	0	25.3	-81.4
Total manufactures	296.1	34.3	10.2	0.9	79.1	-108.2
Agriculture	31.1	3.5	2.6	0	8.3	12.0
Other exports not incl.above	47.2	6.0	9.0	-1.6	12.6	-12.4
Total exports of goods	374.4	43.8	9.4	0.5	100.0	-108.6

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to the totals shown.
Data are presented on a Census basis.

Source: *U.S. Department of Commerce News (FT 900)*, Nov. 1994.

Table 5
U.S. exports and imports of goods with major trading partners, Jan. 1993-Sep. 1994
(Billion dollars)

	Exports			Imports		
	Sep. 94	Sep. 94	Sep. 93	Sep. 94	Sep. 94	Sep. 93
North America	14.5	120.8	105.5	16.0	128.7	111.3
Canada	10.1	83.3	74.7	11.6	92.9	82.2
Mexico	4.4	37.5	30.8	4.4	35.7	29.1
Western Europe	9.4	86.3	83.7	11.0	95.2	83.9
European Union (EU)	8.3	74.9	71.2	9.2	80.9	71.0
Germany	1.6	13.9	14.1	2.5	23.0	20.8
European Free-Trade Association (EFTA)[1]	0.9	8.9	9.4	1.6	12.7	11.6
Former Soviet Union/Eastern Europe	0.6	4.0	4.2	0.4	3.9	2.4
Former Soviet Union	0.4	2.8	2.6	0.3	2.5	1.4
Russia	0.3	2.0	1.8	0.2	2.1	1.2
Pacific Rim Countries	12.7	109.1	96.5	23.6	190.2	167.9
Australia	0.8	7.2	6.1	0.3	2.4	2.5
China	0.6	7.2	6.3	4.1	28.3	23.0
Japan	4.6	39.7	35.9	9.9	87.0	78.1
NICs[2]	5.3	43.4	38.6	6.6	52.0	47.7
South/Central America	3.7	29.6	26.9	3.6	28.5	25.8
Argentina	0.4	3.3	2.6	0.2	1.3	0.9
Brazil	0.6	5.3	4.2	0.8	6.6	5.5
OPEC	1.4	12.9	13.9	2.8	23.3	24.4
Total	43.8	374.4	342.2	59.1	483.0	426.6

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to the totals shown due to rounding. Exports of certain grains, oilseeds and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, Nov. 1994.

Table 6
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1993-Sep. 1994 seasonally adjusted

Sector	Exports		Change		Trade balances	
	Jan.-Dec. 1993	Jan.-Sep. 1994	Jan. Dec. 1993 over Jan.-Dec. 1992	Jan. Sep. 1994 over Jan.-Sep.-1993	Jan.-Dec. 1993	Jan.-Sep. 1994
	Billion dollars		Percent		Billion dollars	
Travel	57.6	44.8	6.2	4.4	17.1	11.5
Passenger fares	16.5	12.5	-2.5	0.8	5.1	3.2
Other transportation	23.1	18.1	2.0	5.2	-1.4	-1.0
Royalties and license fees	20.4	16.2	2.4	5.9	15.6	11.9
Other private services[1]	54.9	43.3	7.6	6.4	22.8	17.0
Transfers under U.S. military sales contracts	11.4	7.9	5.4	-12.2	-0.8	-0.3
U.S. Govt. miscellaneous services	0.8	0.5	-5.8	-19.0	-1.5	-1.4
Total	184.8	143.5	4.7	3.8	56.9	40.9

[1] "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, and other information services, such as engineering, consulting, etc.

Note.—Services trade data are on a Balance-of-Payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT 900)*, Nov. 1994.

INTERNATIONAL TRADE DEVELOPMENTS

United States Adds New Dimension to EU Banana Debate

On October 17, United States Trade Representative Mickey Kantor launched an investigation under Section 301 of the 1974 Trade Act of the European Union (EU) import regime for bananas. The investigation was instituted in response to a petition received from Chiquita Brands International Inc. and the Hawaii Banana Industry Association. The petitioners claim that not only is the EU banana regime dating from July 1, 1993 discriminatory, but that a more recent agreement reached between the EU and four Latin American nations worsens the discrimination.

Over the past 2 years, the EU banana import regime has been the target of complaints from many sources. The 1992 EU single market program required an end to nationally-based policies and the introduction of an EU-wide import regime. In the past, some member states imposed discriminatory quotas and tariffs on imports of so called "dollar bananas" produced in Central and South America. These restrictions were intended to protect the market for bananas from former EU colonies in Africa, the Caribbean, and the Pacific (ACP countries), which enjoyed duty- and quota-free access to the EU market. As part of the 1992 program, the EU Commission proposed an EU-wide package of duties and quotas on imports of non-ACP (e.g., Latin American) bananas. Several member states opposed these measures, including Germany, which had previously imported all bananas duty-free. Latin American producers also opposed the proposed regime because it would limit their access to the entire EU banana market. In response, the EU Commission eased the quota and duty restrictions several times. Although Latin American nations and Germany continued to vigorously criticize the regime, it entered into effect on July 1, 1993, replacing the nationally-based programs. (For more details, see *IER*, June 1994.)

Soon after the new EU banana regime became effective, a group of Latin American nations initiated dispute-settlement procedures in the GATT. The panel found the banana regime GATT-illegal, but the panel report was never adopted. In the meantime, four Latin American nations—Colombia, Costa Rica, Nicaragua, and Venezuela—negotiated a separate "Framework Agreement" with the EU. Other Latin American banana-producing countries refused to sign this agreement. It eased the quota and duty restrictions in return for the signatories' agreement not to support the GATT panel report and not to initiate GATT dispute settlement procedures against the banana regime until December 31, 2002, when the agreement expires. The accord was supposed to enter into effect on October 1, 1994, but has been delayed until January 1, 1995, since it is part of the EU Uruguay Round implementing legislation that still must be approved.

Chiquita is the only Section 301 petitioner with a direct stake in the EU market. Although the Hawaii Banana Industry Association represents Hawaiian banana farms, these bananas are consumed almost exclusively in Hawaii. As a result, this association is primarily concerned with the trade diversionary effects of the EU regime. According to the petition, the trade barriers erected by the EU have resulted in a surplus of Latin American bananas on the Hawaiian market, which has depressed Hawaiian banana prices and hurt the Hawaiian banana industry. Chiquita, on the other hand, markets Latin American bananas in the EU—supplying approximately 40 percent of the Latin American bananas sold in the EU in 1992. Chiquita claims that the banana regime has increased its costs; disrupted its sourcing, marketing, and distribution channels; and decreased its market share and opportunities for market growth. According to Chiquita, these problems will grow even worse when the Framework Agreement is implemented.

More specifically, Chiquita claims that the common market organization for bananas, which establishes EU-wide quotas and tariffs for non-ACP bananas, has reduced its market share in the EU by over 50 percent. Furthermore, new licensing rules have limited its ability to market this reduced amount. The regime requires that only 66.5 percent of the non-ACP quota be marketed by operators that have traditionally marketed such bananas in the EU. Most of the

remainder is to be marketed by European firms, which have historically marketed only ACP bananas.

The Framework Agreement allocates specific export quotas (as a percent of the non-ACP quota) to each of the four Latin American signatories. Chiquita claims that these quotas were arbitrarily set and will require major changes in the company's sourcing patterns, increasing its costs. Furthermore, Chiquita claims that the Framework Agreement is discriminatory and costly because it makes export licenses mandatory for all marketing companies except European ones. The Latin American signatories have the right to sell these licenses to the highest bidder.

On October 17, the USTR announced it would pursue a section 301 investigation in response to the petition. Section 301 allows U.S. businesses and workers to seek government aid in gaining relief from unfair trade practices that burden or restrict U.S. commerce. Under the statute, USTR is required to pursue the complaint under GATT dispute-settlement procedures if, as in this case, the subject falls under GATT purview. Because the Framework Agreement has not entered into effect, USTR will not yet investigate the practices of the four Latin American signatories to that accord.

The EU immediately criticized the USTR decision. In the meantime, the EU and ACP are seeking a waiver from GATT obligations for the Lome Convention, an agreement under which the EU grants aid and trade concessions to ACP countries. Special EU treatment of ACP bananas derives from the Banana Protocol, which is part of Lome. Thus, a waiver for Lome could legitimize the banana regime. The United States is currently objecting to the terms of the waiver as drafted by the EU, since they are sufficiently broad to preclude access to dispute settlement.

Regardless, Guatemala has indicated it will seek another dispute-settlement panel under the new World Trade Organization (WTO), the successor to the GATT, to examine the EU banana regime, including the Framework Agreement. Since dispute-settlement procedures will be strengthened under the WTO, a new solution may preclude the need to pursue a section 301 investigation further.

USITC Reports on the Effects of the Arab League Boycott

The USITC recently completed a report entitled *Effects of the Arab League Boycott of Israel on U.S. Businesses* in response to a request from the United States Trade Representative (USTR). Of particular interest to the USTR were the effects of the secondary and tertiary levels of implementation of the boycott. The USITC study is the first to estimate the economic effects of the boycott on the United States, to the Commission's knowledge. Following are highlights of the report:

In terms of diverted resources and longevity, the Arab League boycott of Israel is one of the most significant international sanctions of modern times. When rigidly enforced, the boycott effectively imposes a ban or a zero quota on imports of the products of a blacklisted firm. Enforcement of the nonprimary levels of the boycott among Arab League members varies widely, however, and it has varied more so since the end of the Gulf War in 1991.

U.S. businesses lost sales of at least $410 million in 1993 in boycotting nations because of the Arab League boycott of Israel. Actual lost sales because of the boycott are likely to be higher than the projected estimate. In their responses to an USITC questionnaire, many firms indicated that they were unable to quantify lost sales or business opportunities related to the boycott. The total 1993 cost of compliance with U.S. antiboycott compliance laws for U.S. firms doing business with boycotting nations was about $160 million.

The boycott has had a chilling effect on Israel's business relations with other countries. It is likely that a number of firms have voluntarily refrained from business opportunities in Israel because of the boycott. The Federation of Israeli Chambers of Commerce conservatively estimates that the boycott has reduced investment in Israel below its potential by at least 15 percent to 20 percent per year, and that it costs the Israeli economy about $2 billion annually.

To request copies of the report *Effects of the Arab League Boycott of Israel on U.S. Businesses* (USITC publication 2827, November 1994), write to the Office of the Secretary, U.S. International Trade Commission, 500 E St., SW, Washington, DC 20436, or call 202-205-1809. Requests may also be faxed to 202-205-2104.

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SPECIAL FOCUS

Trade Issues of the 1990s—Part II

Introduction

As negotiation of the 1986-93 Uruguay Round entered its final stages, officials of many nations sought to address some of the international economic issues left out from the Round. A consensus within the Organization for Economic Cooperation and Development (OECD) in the early 1990s was that trade issues germane to an increasingly global economy include these five themes—(1) environment, (2) competition policy, (3) investment, (4) labor standards, and (5) technology, innovation, and public-sector subsidization, although the latter has not been yet officially adopted as part of the 1990s trade issues program.

The longstanding issue of trade and environment grew in importance during the late 1980s and achieved prominence during the early 1990s. Last month's *IER* dealt with this relationship. This month's *IER* covers the four remaining trade themes.

Trade and Competition Policy

Legal Complications of Trade

In contrast to the advanced work on trade and environment in the General Agreement on Tariffs and Trade (GATT), the OECD, and in national public debates, such as those in the United States or the European Union (EU), the issue of trade and competition has been difficult to bring into popular terminology. Presenting the legal technicalities of competition policy—known as antitrust in the United States—to a broader, lay audience is hard enough. Even more difficult is bridging the difference in approach between the legal and economic precision of antitrust law and enforcement, and the more multifaceted formulation of trade policy.

Nonetheless, as businesses compete more and more on a global scale, trade frictions involving competition policy are arising more often. These frictions involve issues of public and private monopoly; merger and acquisition policy; such restrictive business practices as collusion; and related issues of market access. For example, issues raised under the U.S.-Japanese Structural Impediments Initiative since its inception in 1987-88 have related largely to what the United States views as restrictive practices by Japanese firms involved in industrial groupings known as *keiretsu*. The United States and the EU are increasingly drawn into consultations over merger policy as firms expand abroad to maintain their industrial competitiveness. Negotiations concerning access to government procurement tenders—an area previously reserved exclusively for national firms—are raising new, so far unresolved issues of monopoly, whether of public entities, private entities, or private entities that are publicly regulated. Rejecting state-run economic planning, formerly communist countries now need to set up effective legal structures and competition policies to support market economies and to ensure the free flow of trade and investment.

Antitrust and Antidumping

Within a country, a government uses antitrust law to promote competition among firms, which thereby advances the efficient allocation of resources and discourages predatory and anticompetitive practices. Between countries, however, no common competition policy typically exists. The notable exception is that of the EU. If domestic firms find that their domestic antitrust law cannot proscribe anticompetitive behavior by foreign firms competing in the domestic market, then domestic businesses may turn to alternative remedies that are available—such as national trade laws that typically involve antidumping and countervailing duty measures. But, whereas antitrust policy generally seeks to increase competition and lower prices, trade-policy remedies often restrict trade and raise prices.

However, this trade-policy solution is unavailable where restrictive business practices impinge on the terms of competition abroad. Faced with anticompetitive business practices abroad—practices such as tying contracts and exclusive dealing agreements—firms cannot invoke their own antitrust law, but must instead use the national law of the market

they are trying to penetrate.[1] Legal rights and remedies under these circumstances vary widely. Moreover, some restrictions are government imposed. For example, the restricted or conditioned right of establishment for foreign investors in many countries can limit options for competing with domestic suppliers in their home markets.

Although the unilateral extension of national antitrust law beyond its sovereign jurisdiction has been threatened on occasion in response to such practices,[2] those governments affected have objected strenuously. As an alternative to unilateral measures, the United States has been pursuing antitrust cooperation agreements on a bilateral basis as a means to improve enforcement of competition policies both at home and abroad.

Trade and Competition in the OECD

In their 1992 communique, the OECD ministers highlighted four areas on which the Trade Committee and the Committee on Competition Law and Policy (CLP) should focus their work—

1. Improving consistency between trade and competition policies;

2. Setting the stage for convergence of the substantive rules and enforcement practices of competition policy;

3. Finding better ways to monitor trade and competition policies; and

4. Promoting consumer interests.

In response to these mandates, in 1991, the CLP began "to give priority to work on mergers, strategic alliances, the objectives of competition policy and to the identification of linkages between competition and trade policy." The committee launched a study of merger enforcement by looking at recent mergers investigated under more than one jurisdiction. The aim was to review merger control procedure co-operation and convergence. In 1992, the CLP launched a "theoretical and empirical study of the economic effects of anti-dumping policies" that surveys "all anti-dumping actions brought in the 1980s in the US, the EC, Canada and Australia and will also provide in-depth analyses of the steel, semiconductor and consumer electronics sectors." Trade, business, and industry representatives will discuss the objectives of competition policy and of strategic alliances as part of the study.

1992 Joint Report on Trade and Competition

In June 1992, the two committees submitted an initial joint report to ministers that concluded that—

> *Liberal trade and competition policy share a common objective: the use of market-place competition to achieve an efficient allocation of resources and maximum economic growth and welfare benefits.*[3]

The report set out a joint three-part work program—(1) development of a framework paper on the interaction between trade and competition policies, (2) discussion of case studies for purposes of identifying generic trade and competition issues, and (3) examination of the possibility of a more systematic use of the principles embodied in the OECD Checklist for the assessment of trade policy measures. The checklist approach has met with some success in multidisciplinary matters at the OECD. It generally asks two sets of questions—(1) the effects and effectiveness of competition-policy measures on trade, and (2) the effects of trade-policy measures on competition policy. Generic questions might be: What are the projected effects of one policy on the other? Can the positive effects be enhanced, and the negative effects minimized? To what extent do measures of one policy (e.g. trade) support the objectives of the other (e.g. competition), or impinge on the other? Do foreign aspects of one policy area impinge on domestic policy aspects (of the same policy area, or other areas)? Do the measures discriminate among countries and why? Are alternative measures available?

By 1993, the two committees had identified a number of "areas for consideration at the trade and competition interface" where "insufficient coherence between trade, competition and other policies has been asserted to give rise to tensions in world economic relations." The trade and competition topics identified were—

1. Competition policy issues affecting trade
   - A. Horizontal agreements
   - B. Competition policy towards vertical arrangements

[1] Typically, extraterritorial application of national antitrust laws would not be pursued in any case unless the actions of foreign firms directly affect domestic consumers or markets.

[2] Examples include the U.S. threat to extend its antitrust laws to Japanese firms involved in *keiretsu* industrial groupings, or the EU extension of its merger and acquisitions regulations to U.S. business in merger situations with non-EU firms but which nonetheless have an impact on EU consumers.

[3] OECD, *Trade and Competition Policies*, May 1992 (OECD: Paris, 1992); also OECD/GD(92)98.

C. International mergers

2. Trade policy issues affecting competition

   A. Safeguards and grey-area measures

   B. Anti-dumping practices

   C. Restrictive trade measures and practices

3. Other policy issues affecting trade and competition

   A. Domestic policies in the areas of subsidies, standards or local content

   B. Governmental rules affecting distribution systems

   C. Abuse of monopoly power

   D. International agreements between firms

   E. Harassment of competitors

1993 Joint Progress Report

In June 1993, the two committees presented a joint progress report to OECD Ministers, pointing out that—

> *Globalization should produce more efficient production and marketing, lower prices and improved product quality and variety but will fail to do so unless market access and competition can be preserved and enhanced.*[4]

The committees also re-iterated their intent to explore the issue of a multilateral framework for integrating competition rules with existing multilateral trade rules.

1994 and 1995 Trade and Competition Work

During 1993/94, the two committees concentrated on three main topics—(1) vertical relationships and market access; (2) horizontal agreements; and (3) competition elements in international agreements. In 1994/95, the two committees will focus on examining—(1) competition elements found in international agreements, possibly extending to multilateral, regional, and bilateral instruments and agreements; (2) the ramifications for competition policy of the new and revised disciplines from the Uruguay Round; (3) interrelations between trade, competition, and investment policies, especially when germane to market access; (4) the antidumping study that is currently underway in the Committee on Competition Law and Policy and focused on economic impact; (5) the competition laws of certain members, and particularly sectoral exemptions and derogations where significant trade impact occurs; and (6) enforcement issues. Other areas that the committees will look into, if feasible, include—the role of competition policy in dealing with the issue of state aids,[5] subsidies, or procurement policies that affect both trade and competition; the scope and objectives of competition policy on subjects such as antidumping, export and import cartels, vertical restraints, international mergers; and concepts and terminology, such as anti-dumping and predatory pricing, market access and barriers to entry, and similarly related terms.

Deliberate Joint Progress

The two OECD committees involved are proceeding deliberately rather than swiftly in their examination of the linkages between the two fields. Both committees have agreed to use case studies to reveal the generic issues underpinning the links between trade and competition policy. After appropriate case studies have been mutually decided, it is hoped that the illumination of the issues involved will allow the committees to draft an analytical framework on the interaction between competition and trade policies. Several case studies are under consideration including allegations of cartel behavior by Japanese and European steel firms; of restrictive business practices with regard to Japanese distribution systems for automobiles, for automobile parts, and for paper; and of cartel behavior in certain heavy machine industries. The OECD committees are moving at a pace that should prevent the recurrence of past experiences where progress was disrupted owing to differences over details and presentation

The repeated mention of Japan in discussions of trade frictions involving competition policy highlights another difficulty before the two committees. A sharp focus on Japan as illustrating the failure of effective market access for foreign goods—despite the removal of virtually all formal barriers—has been brought to the committees' discussions as a result of the longstanding bilateral dialogue between the United States and Japan involving market access. Although Japan may appear to non-U.S. participants to be at

[4] OECD, *"Trade and Competition Policies,"* June 1993 (OECD: Paris, 1993); also OECD/GD(93)101.

[5] State aids can encompass regional or sectoral assistance targeted on states/provinces/regions (so-called "subcentral" governments) to locate business in disadvantaged areas (e.g. financial incentives to locate semiconductor production facilities in depressed regions of Scotland). But, state aids can also indicate "aid" policy operated by subcentral governments—such as State tax incentives offered to locate BMW automobile production facilities in South Carolina or export promotion programs operated abroad by U.S. State governments through their own "departments of state" and "commerce."

times the sole U.S. focal point, the United States has stated that others, such as Korea and the EU, are also important players in this field.

1994 OECD Ministerial Discussions

Progress on trade and competition issues was highlighted at the June 1994 OECD ministerial meeting. Since the 1993 joint report, discussions have resulted in several specific areas of agreement concerning—(1) vertical restraints and market access; (2) horizontal agreements, such as export cartels; and (3) voluntary export restraints (VERs) as well as a new area of attention, voluntary import expansion arrangements (VIEs).

Vertical restraints typically arise where two or more levels of the production and distribution chain are covered by arrangements that can range from a wholly integrated firm to contracts between entirely independent firms. Discussions have recognized that vertical arrangements can have both pro-competitive effects, such as enhancing production efficiency, distribution, and product quality, as well as anticompetitive effects. The group suggested that government policy should seek to balance these two effects, being particularly alert to possible differences in assessments coming from the competition-policy community and those from the trade-policy community.

Of the two broad categories of "horizontal arrangements"—that is, (1) hard-core export cartels, and (2) less blatant competitor co-operation—discussions have yielded a strong consensus that export cartels using practices such as price fixing, output restraints, market division, and bid rigging should be prohibited outright as business practices hampering movement toward freer trade. Concerning the export arrangements that are less clear as to their competitive impact, the group considered a case-by-case approach more appropriate.

With the prohibition of voluntary export restraints (VERs) between governments, agreed in the Uruguay Round, the group underscored that these official VERs should not be allowed to be replaced with VER-like arrangements among private-sector firms. Finally, the group also expressed concern that voluntary import expansion arrangements could undermine the most-favored-nation principle as well as distort competition.

The GATT and an International Competition Framework

To date, the GATT has had little to do with the issue of competition policy. However, with the completion of the Uruguay Round and advent of the WTO, this may change as ideas and discussions concerning a future multilateral framework on competition policy arise and develop. Although a multilateral competition framework could be situated at the OECD or elsewhere, one GATT official involved in OECD discussions regarding competition policy offered his opinion on why an international competition code was likely to settle at the WTO. He advanced the view that, although some believe stronger free-trade provisions—fully effective national treatment and right-of-establishment principles for international businesses, for example—would essentially obviate the need for competition policy, there were nonetheless at least five factors that could drive the WTO to undertake such competition policy work.

First, he suggested that GATT disciplines may need to be supplemented with rules on competition policy to protect the gains achieved in the Uruguay Round. Second, the forthcoming WTO is moving from rules and disciplines that also affect traded goods at international borders toward rules that affect nontraded goods. The intellectual property and services agreements of the Uruguay Round are examples of this trend. Third, the pressure from domestic interests to maintain national government cartels may call for international pressure from bodies such as the WTO to continue reforms. Negotiations on government procurement procedures or on state trading enterprises—such as commodity marketing or trade boards—provide current examples. Fourth, the WTO has enforcement mechanisms, unlike some international agreements or forums such as the OECD. Finally, developing countries are likely to be better integrated within the WTO, which will provide a more comprehensive environment in which to negotiate trade matters than its GATT predecessor.[6] In the past, many developing countries have alleged restrictive business practices on the part of developed-country multinational enterprises but have been unsuccessful to date in engaging the developed countries in addressing these issues. Discussion of such practices in relation to an international competition code situated at the WTO would likely provide such a forum, this official thought.

Trade and Investment

As more and more business firms globalize their operations, the separate subjects of trade and investment are becoming increasingly intertwined.

[6] A "trade and development" section with additional articles was attached to the General Agreement in 1966 to take into account the trade needs of developing countries, as many became independent from their colonial administrations.

OECD Codes of Liberalization

Investment decisions made prior to the establishment of the OECD still provide the basis for the discussions currently underway on trade and investment as part of the 1990s trade issues. The 1948 Organization for European Economic Co-operation (OEEC) spearheaded the post-World War II reconstruction of Europe, and was the predecessor to the OECD, founded in 1961. The removal of quantitative restrictions on trade in goods began for OEEC countries in 1949, first on visible trade in goods and later on invisible transactions on current account—payments for services or for tourism, for example. The OECD Code of Liberalization of Current Invisible Operations grew out of this effort.

A second code, the OECD Code of Liberalization of Capital Movements, grew out of the more difficult task of convincing European countries rebuilding their economies to liberalize their capital movements. The Capital Movements Code succeeded finally—not by requiring comprehensive liberalization of capital movements—but by requiring instead a commitment to the objective of complete freedom for capital flows and obligating member states only to the progressive liberalization of specific operations.

When the OECD was established, these "twin" codes were adopted. They committed OECD member countries to "pursue their efforts to reduce or abolish obstacles to the exchange of goods and services and current payments and maintain and extend the liberalization of capital movements." The OECD Committee on Capital Movements and Invisible Transactions (CMIT) is charged with the operation of these two codes.

Declaration on International Investment

The OECD Codes of Liberalization provided a framework for monitoring major capital flows involved in portfolio investment, but neglected capital flows arising from direct investment. In 1975, the OECD established the Committee on International Investment and Multinational Enterprises (CIME) to—(1) develop ways to improve the exchange of information and harmonized statistics regarding international business investment, (2) work out uniform behavior standards for multinational enterprises (MNEs), and (3) develop procedures between governments to carry out these tasks.

In 1976, the investment package developed by the CIME was adopted, entitled the "Declaration on International Investment and Multinational Enterprises," and commonly known as the "National Treatment Instrument." The Declaration consists of—

1. Guidelines for Multinational Enterprises;
2. Decision on Inter-Governmental Consultation Procedures on the Guidelines for Multinational Enterprises;
3. Decision on National Treatment; and
4. Decisions on International Investment Incentives and Disincentives.

Particularly notable in the declaration is its recommendation that foreign investors be accorded so-called "national treatment"—where "treatment no less favorable than that accorded in like situations to domestic enterprises" is granted to foreign investors—as well as another recommendation that governments cooperate by considering the effect of specific incentives or disincentives on international direct investment.

1991 Ministerial Mandate

OECD ministers have repeatedly confirmed their interest in the interrelationship between trade and investment as part of the new trade agenda, initially set forth in the 1991 communique. To this end, the CIME and CMIT were tasked in 1991 with cooperating in the preparation of—

> *A study to explore the advantages and the feasibility of a broader investment instrument, covering all areas of foreign investment including investment by non-residents and the treatment of established foreign controlled enterprises. This study will take account of the evolution in investment flows and investment instruments and will draw as appropriate on relevant provisions of the National Treatment instrument and the Codes of Liberalization.*[7]

Multilateral Investment Agreement

Building on experience from the 1961 Codes of Liberalization and the 1976 National Treatment Instrument, the ministers of OECD member states have indicated that they want to examine further the feasibility of a comprehensive investment agreement that contains—(1) legally binding obligations for all levels of government regarding the liberalization of investor entry into and establishment in a foreign market, (2) investment protection once an investor is

[7] OECD, *The Annual Report of the OECD* (OECD: Paris, 1992), p. 32.

established, and (3) a dispute-settlement mechanism. By June 1994, joint examination of the feasibility of such an investment instrument—referred to now as a multilateral investment agreement (MIA)—led the OECD Secretariat to draft recommendations to the member states on the subject for future work based on the cooperative work of the CIME and CMIT.

The "Proposed Methodology for a Wider Investment Instrument" set up four working groups to pursue the subject—(1) Liberalization (Existing and New Disciplines), (2) Investment Protection, (3) Dispute Settlement, and (4) Nonmembers and Institutional Matters. These four groups began to consider their mandates in July 1994.

The groups will all examine two common objectives—(1) whether other agreements suggest solutions to problems in each area; and, (2) what would be the foremost "state of the art" solution for each subject, and could an MIA reach or surpass this level. Each group will also examine individual objectives set out below. Agreements to be canvassed include the North American Free-Trade Agreement (NAFTA), the General Agreement on Trade in Services (GATS), bilateral investment treaties (BITs), and the EU Energy Charter.

The liberalization group is split into two subgroups: one considering existing disciplines, the other new disciplines. Sweden chairs the subgroup on existing provisions, which will explore—(1) mechanisms by which to improve liberalization before the new MIA, that is, how to improve and widen investment liberalization even before a new agreement is developed; (2) the mechanism by which to obtain yet stronger commitments currently, that is, how to strengthen and deepen investment commitments through current means; and (3) "standstill," or how to secure commitments to renounce erecting further investment barriers or discrimination against foreign firms, investors, suppliers, goods, services, etc. Canada chairs the subgroup on liberalization through new disciplines. Its primary aim is to examine areas not covered by OECD instruments, such as corporate practices, monopolies and concessions, mandatory performance requirements, and movement of key personnel.

Germany leads the group on investment protection, which is assigned to look at rules for investment protection, expropriation, profit repatriation, and so on, including issues involving intellectual property. The United States heads the disputes group, looking to develop—(1) a mechanism for dispute settlement, particularly one that can accommodate investor-to-state cases; and (2) a definition of investment that will help determine the obligations that can be subjected to dispute resolution. Finally, the Netherlands chairs the group on institutions and nonmembers, and is looking into—(1) how to involve nonmembers and under what criteria; and (2) the compatibility of an MIA with other agreements.

Currently, joint discussions on the trade and investment issue turn on two fundamental questions—(1) where such a multilateral investment agreement might be situated, whether in the WTO, the OECD, or elsewhere; and (2) how much integration of the two topics is desirable, where an MIA could result in a fairly minimal integration of the two areas or where fairly extensive integration of trade and investment topics might go beyond those set out in an MIA. Presently, the CIME is endeavoring to draft a rough MIA as a point of departure from which joint discussions involving both trade and investment viewpoints can start.

Trade and Investment in the GATT

The Uruguay Round agreements included a section on trade-related investment measures (TRIMS) to be carried out through the WTO Committee on Trade-Related Investment Measures. The subject of TRIMS was settled provisionally in the earlier stages of the 1986-93 Uruguay Round, negotiations being focused rather specifically on a range of trade-distorting investment measures employed largely by a number of developing countries. These investment measures, although offered as incentives, also attached conditions that tended to distort the international flow of investment capital and the resulting trade flows.

The primary investment measures to which major overseas investors like the United States objected are contingent trade restrictions, such as that investment which is permitted subject to a given level of goods being exported, trade-balancing restrictions that permit imports only in some proportion to exports, or access to foreign exchange from the central bank in the host country that is tied in some manner to exports by the foreign investor. A number of countries employing these investment measures are situated in the South and Southeast Asia region—countries such as India, Malaysia, Pakistan, and the Philippines—although countries in other regions also employ such measures—such as Nigeria and Venezuela.

The final TRIMS agreement requires WTO signatories to provide notice of the phaseout of current investment measures and prohibits future ones that clearly distort trade. An illustrative list of the kinds of measures that restrict trade is included as an annex to the agreement. The TRIMS committee will monitor the phaseout of these restrictions and other investment measures related to trade. In a broader vein, the

agreement also foresees the WTO TRIMS committee as the locus of further multilateral discussions concerning trade-related investment measures, including competition policy. Whereas the developed countries were the driving force behind the prohibition of trade-distorting investment measures, as well as the creation of a committee where suspect measures can be discussed, developing countries have long sought a forum to discuss the alleged abuses of monopolistic market power and restrictive business practices by multinational enterprises (MNEs), which are largely based in the industrialized world.

Trade, Employment and Labor Standards

The relation of trade to internationally recognized labor standards has been added to the 1990s trade agenda only recently, at the June 1994 OECD Ministerial meeting. In the interim between the December 1993 conclusion and the April 1994 signing of the Uruguay Round agreements, the United States sought to have labor standards—also referred to as worker rights—included in discussions of factors affecting trade under the forthcoming WTO regime. However, developing countries were deeply suspicious that such multilateral discussions were likely, at best, to undermine their comparative trade advantage arising out of lower labor costs; at worst, to afford developed countries an issue that could be abused for patently protectionist purposes.

U.S. Focus on Worker Rights

The recent U.S. effort to bring labor standards under multilateral discussion in the trade arena has both a longstanding and a more immediate stimulus. Congressional mandates to pursue "worker rights" have been common as part of the legislative renewal of Presidential trade-negotiating authority since the Eisenhower administration. This mandate was reiterated most recently in Congressional instructions to U.S. negotiators in the Omnibus Trade and Competitiveness Act of 1988. Of the 16 negotiating objectives set out in section 101 of the act, no. 14 reads—

(14) WORKER RIGHTS.—The principal negotiating objectives of the United States regarding worker rights are—

(A) To promote respect for worker rights;

(B) To secure a review of the relationship of worker rights to GATT articles, objectives, and related instruments with a view to ensuring that the benefits of the trading system are available to all workers; and

(C) To adopt, as a principle of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade.

More recently, the 1992 U.S. Presidential campaign brought out concern for issues such as environmental and labor standards, first in relation to the NAFTA signed in 1992 and later in relation to the end-game negotiations of the Uruguay Round in 1993. The United States has said it supports these rights as a means to raise the living standards of all citizens, including workers. The administration had hoped to include such rights as part of legislation to renew its trade-negotiating authority, proposed initially in August 1994. The United States has stated repeatedly that it in no way seeks to use new labor standards to erect new trade barriers for protectionist purposes.

Although unsuccessful in inserting language concerning worker rights into the Marrakesh Declaration in April 1994, the United States did succeed in having trade and labor standards acknowledged by other Round participants as a legitimate subject for consideration under the forthcoming WTO work program after it starts in January 1995. Following the December 1993 conclusion of the Uruguay Round, President Clinton took the opportunity to raise the issue of trade and labor standards at a press conference on Janaury 11, 1994, following regular consultations between the United States and the European Union held under the Transatlantic Declaration of 1990. After meeting with Jacques Delors, President of the European Commission, and Andreas Papandreou, Prime Minister of Greece and then-President-in-Office of the European Council of Ministers, President Clinton stated that—

We agreed to explore the next generation of trade issues. I suggested that the successor agenda to the Uruguay Round should include issues such as the impact of environmental policies on trade, antitrust and other competition policies, and labor standards, something that I think we must frankly address.

While we continue to tear down anti-competitive practices and other barriers to trade, we simply have to assure that our economic policies also protect the environment and the well-being of workers. And as we bring others into the orbit of global trade, people who can benefit from the investment and trading opportunities that we offer,

we must ensure that their policies benefit the interests of their workers and our common interest in enhancing environmental protection throughout the globe.

In August 1994, the administration initially included in its request for renewal of fast-track trade-negotiating authority a provision for concluding trade agreements involving environmental provisions as well as those involving worker rights. A decision on this authority, however, was postponed.

Labor Standards Precursors

In its efforts to raise worker rights as a multilateral issue, the United States pointed out that the Havana Charter of 1948 and, subsequently, the GATT, addressed these rights. The Havana Charter specified—

The Members recognize that ... all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade and accordingly each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within the territory.

The Havana Charter—as preamble to the International Trade Organization (ITO)—never came into existence as the ITO was never ratified by national legislatures. Although the later preamble to the GATT states that members are joining the General Agreement "Recognizing that their relations in the field of trade ... should be conducted with a view to raising standards of living," the more specific labor standards of the Havana Charter serve now only as guidelines for present-day negotiators, taken from the collective history of the original negotiation of the General Agreement.

ILO Labor Standards

The United States' campaign to discuss labor standards in relation to trade concentrates largely on five of the most widely recognized labor standards. These five standards are—

1. The freedom of association;
2. The right to organize and bargain collectively;
3. The freedom from forced or compulsory labor;
4. A minimum age for the employment of children; and
5. Measures that set forth minimum standards for work conditions.

These standards, as well as others, are internationally recognized by the International Labor Organization (ILO) of the United Nations in its conventions and endorsed by a number of countries. The United States incorporates these five standards as conditions for affording trade preferences to developing countries under such programs as the Generalized System of Preferences (GSP). In a review[8] of existing trade and labor provisions, prepared for the November 1994 meeting of its governing body, the ILO found that virtually all trade liberalizing agreements lack a "social dimension" or a "labor dimension," particularly concerning the areas covered by the ILO conventions on freedom of association, collective bargaining, prison labor, and forced and child labor. Although the idea is adamantly opposed by developing countries, the paper suggests incorporating some ILO conventions into the WTO rules where the WTO could make decisions concerning trade sanctions following ILO judgement about whether violations had occurred.

1994 OECD Communique and Labor Standards

Although unable to convince Uruguay Round participants at the Marrakesh ministerial meeting to adopt trade and labor standards immediately as part of the work agenda for the forthcoming WTO, the United States did succeed in placing the subject on the 1990s trade agenda underway at the OECD. Although its multilateral membership is less comprehensive than that of the GATT and the WTO, the OECD ministers placed trade and labor on the international trade agenda, saying in their 1994 communique that the OECD work program on 1990s trade issues "will involve co-operation with all relevant international organisations." These bodies will undoubtedly include the WTO, as well as the International Monetary Fund, the World Bank, the ILO, and others. The communique reaffirmed that the 1990s trade agenda underway covers trade and environment, trade and competition law and policy, trade and investment, and now is to include trade and labor standards, saying—

[8] United Nations International Labor Organization, "The Social Dimension of the Liberalization of World Trade," Nov. 1994 (ILO: Geneva).

Trade, employment and internationally recognised labour standards, including basic concepts, empirical evidence in trade and investment patterns, and current mechanisms for promoting higher labour standards worldwide. This work should lead to a report to Ministers in 1995.

Trade, Technology, and Industrial Support

In both the 1991 and 1992 OECD communiques, the subject of technology and innovation[9] received mention as a possible topic for examination as part of the 1990s trade issues work, although it has gone unmentioned since that time. However, the trade issues surrounding innovation and technology development are not topics that have only just surfaced, but are longstanding ones in the debate over different approaches to industrial policy.

Industrial Policy

The issue of the impact of technology development on trade concerns the extent to which a government supports high-technology industries to ensure economic growth at the competitive forefront. Supporters of active industrial policy by government warn that some important, "winning" industries may not survive without preferential treatment, subsidies, or trade restrictions to support them. Skeptics of industrial policy doubt the ability of government leaders to pick "winning" or critical industries any better than market participants and envision budgetary waste as governments race to subsidize "pet" projects and firms.

One of the underlying issues in this debate turns on the spillover effects from developing advanced technologies. Private research and development of new technology is often both risky and capital-intensive, requiring marketable results that can recoup monies invested. However, many new technologies encompass attributes that make them much more widely useful than can be recouped through the marketed product and market pricing— this issue involves what is sometimes dubbed the "appropriability" of a new technology. The difference in the private and public risk of investing capital to develop new technologies, as well as the difference in the private and public good in disseminating them, makes the issue of how much government support for technology a difficult dilemma.

Trade and Technology Work at the OECD

Although not currently part of the OECD work program on 1990s trade issues, efforts to understand the issue of national innovation and international interdependence continue at the OECD. Analytical databases that relate industry, technology and innovation have been strengthened under the OECD Directorate for Science, Technology and Industry (DSTI) with the 1992 reorganization of staff involved with these databases into a new Economic Analysis and Statistics Division.

The systematic comparison of the "framework conditions" for industry that affect both the competitiveness of firms as well as the investment appeal of countries or regions is also underway. Initial results are expected in 1995. The approach is largely microeconomic—complementary to the structural adjustment work launched previously in the OECD in the 1980s. The present work is expected to compare both quantitative parameters—such as factor inputs of capital, labor, and energy—with qualitative parameters, such as company perspective and management orientation toward profits, market share, and strategic interest. Differences in government policies will also be taken into account in areas such as industrial subsidies, competition policies, market access, intellectual property protection, the environment, and the like.[10]

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[9] In 1991, "technology and innovation" was listed with other 1990s trade issues whereas, in 1992, the ministers stated their interest in "industrial support and technology development and innovation policies."

[10] Hanspeter Gassmann, "From Industrial Policy to Competitiveness Policies," sidebar in Raul Gonenc, "A New Approach to Industrial Policy," *OECD Observer*, No. 187, Apr.-May 1994 (OECD: Paris), p. 17.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-September 1994
(Total industrial production, 1985=100)

				1993		1994								
Country	1991	1992	1993	IV	Dec.	I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.
United States[1]	104.2	104.3	109.2	112.9	109.0	115.1	116.7	118.3	116.6	117.3	117.8	118.7	118.6	119.4
Japan	127.7	120.4	115.3	114.7	111.6	112.6	(2)	(2)	107.6	(2)	(2)	(2)	(2)	(2)
Canada[3]	113.8	114.9	118.0	119.6	115.5	117.0	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Germany[4]	100.0	98.1	91.5	95.1	89.7	92.6	(2)	(2)	92.8	(2)	(2)	(2)	(2)	(2)
United Kingdom	109.0	108.6	111.1	116.7	110.8	118.7	(2)	(2)	113.0	(2)	(2)	(2)	(2)	(2)
France	114.2	112.9	108.6	111.5	110.0	(2)	(2)	(2)	113.7	(2)	(2)	(2)	(2)	(2)
Italy	116.8	115.3	112.8	116.3	105.4	119.2	(2)	(2)	125.0	(2)	(2)	(2)	(2)	(2)

[1] 1987=100.
[2] Not available.
[3] Real domestic product.
[4] 1991=100

Source: *Main Economic Indicators;* Organization for Economic Cooperation and Development, August 1994, *Federal Reserve Statistical Release*; November 15 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-September 1994
(Percentage change from same period of previous year)

				1993		1994									
Country	1991	1992	1993	IV	Dec.	I	II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	4.2	3.0	3.0	2.7	2.7	2.5	2.4	2.9	2.5	2.4	2.3	2.5	2.8	2.9	3.0
Japan	3.3	1.6	1.3	1.1	1.0	1.2	0.7	0.0	1.3	0.8	0.8	0.6	-0.2	0.0	0.2
Canada	5.6	1.5	1.8	1.8	1.7	0.6	0.0	0.2	0.2	0.2	-0.2	0.0	0.2	0.2	0.2
Germany	3.5	4.0	4.2	3.7	3.7	3.3	3.0	3.0	3.2	3.1	3.0	3.0	2.9	3.0	3.0
United Kingdom	5.9	3.7	1.6	1.6	1.9	2.4	2.6	2.3	2.3	2.6	2.6	2.6	2.3	2.4	2.2
France	3.2	2.4	2.0	2.1	2.1	1.7	1.7	3.8	1.5	1.7	1.7	1.8	1.7	1.7	(1)
Italy	6.4	5.1	4.4	4.4	4.3	(1)	(1)	(1)	4.3	4.1	4.0	3.7	3.8	3.8	3.8

[1] Not available.

Source: *Consumer Price Indexes, Nine Countries,* U.S. Department of Labor, November 1994.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1991-September 1994

				1993		1994							
Country	1991	1992	1993	IV	Dec.	I	II	III	May	Jun.	Jul.	Aug.	Sept.
United States	6.7	7.4	6.8	6.5	6.4	6.6	6.2	6.0	6.0	6.0	6.1	6.1	5.9
Japan	2.1	2.2	2.5	2.8	2.9	2.8	2.8	3.0	2.8	2.9	3.0	3.1	3.0
Canada	10.3	11.3	11.2	11.1	11.2	11.0	10.7	10.2	10.7	10.3	10.2	10.3	10.1
Germany[3]	4.4	4.7	5.9	6.4	6.5	6.4	6.6	6.5	6.6	6.6	6.5	6.5	6.5
United Kingdom	8.9	10.0	10.4	10.1	10.0	9.9	9.7	9.6	9.6	9.6	9.5	9.4	9.4
France	9.8	10.2	11.3	11.7	11.7	12.3	12.4	(2)	12.4	12.4	12.3	(2)	(2)
Italy	6.9	7.3	9.4	(2)	(4)	11.2	11.9	11.4	(4)	(4)	(4)	(4)	(4)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] Formerly West Germany.
[4] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries,* U.S. Department of Labor, November 1994.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-October 1994
(Percentage, annual rates)

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	1994 II	1994 III	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.
United States	5.9	3.7	3.2	3.3	3.4	3.4	4.3	4.8	4.0	4.5	4.5	4.7	4.8	5.0	5.5
Japan	7.3	4.4	2.9	2.2	2.0	2.2	2.1	2.2	2.2	2.1	2.1	2.1	2.2	2.3	(2)
Canada	9.0	6.7	5.1	4.3	4.0	4.0	5.7	5.8	4.4	6.3	6.5	6.2	5.7	5.6	(2)
Germany	9.1	9.4	7.1	6.2	5.9	5.7	5.1	4.8	5.4	5.0	4.9	4.8	4.8	4.9	(2)
United Kingdom	11.5	9.5	5.8	5.4	5.2	5.2	5.1	5.3	5.1	5.1	5.1	5.1	5.4	5.6	(2)
France	9.5	10.1	8.3	6.5	6.3	6.1	5.5	5.5	5.8	5.5	5.4	5.5	5.4	5.5	(2)
Italy	12.0	13.9	10.0	8.7	8.5	8.3	7.9	8.5	8.0	7.7	8.0	8.3	8.8	8.6	(2)

[1] 90-day certificate of deposit.
[2] Not available.

Source: *Federal Reserve Statistical Release*, November 7, 1994 *Federal Reserve Bulletin*, November 1994.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1991-October 1994
(Percentage change from previous period)

Item	1991	1992	1993	1993 IV	1994 I	1994 II	1994 III	Jun.	Jul.	Aug.	Sept.	Oct.
Unadjusted:												
Index[1]	8.5	97.0	100.1	101.2	101.6	100.0	96.5	99.1	96.7	97.1	95.7	94.8
Percentage change	-1.5	-1.5	3.1	1.6	.4	-1.6	-3.5	-.9	-2.4	.4	-1.4	-.9
Adjusted: Index[1]	101.1	100.9	104.2	104.1	104.7	103.5	99.9	102.5	100.0	100.7	99.1	98.2
Percentage change	1.0	-.1	3.3	.4	.6	-1.2	-3.6	-.6	-2.5	.7	-1.6	-.9

[1] 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, November 1994.

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Trade balances, by selected countries and by specified periods, Jan. 1991- September 1994
(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

Country	1991	1992	1993	1993 IV	1994 I	II	III	Jun.	Jul.	Aug.	Sept.
United States[1]	-65.4	-84.5	-115.7	-111.7	-129.1	-152.4	-164.5	-156.3	178.1	-153.0	-162.3
Japan	77.6	106.4	120.3	41.7	42.4	(2)	(2)	(2)	(2)	(2)	(2)
Canada[3]	9.0	12.1	13.3	3.8	4.2	(2)	(2)	(2)	(2)	(2)	(2)
Germany	13.2	21.0	35.8	17.9	13.1	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom	-24.8	-30.8	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-5.2	5.8	15.8	6.4	3.6	(2)	(2)	(2)	(2)	(2)	(2)
Italy	-13.2	-6.6	20.6	7.5	(2)	(2)	(2)	(2)	(2)	(2)	(2)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] Not available.
[3] Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, November 18, 1994; *Main Economic Indicators;* Organization for Economic Cooperation and Development, July 1994.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1991-September 1994
(In billions of dollars)

Country	1991	1992	1993	1993 IV	1994 I	II	III	Jun.	Jul.	Aug.	Sept.
Commodity categories:											
Agriculture	16.2	18.6	17.8	5.6	4.4	3.6	3.8	1.1	1.2	1.3	1.3
Petroleum and selected product—(unadjusted)	-42.3	-43.9	-45.7	-10.7	-9.6	-11.9	-14.0	-4.5	-4.8	-4.8	-4.4
Manufactured goods	-67.2	-86.7	-115.3	-32.8	-29.1	-33.8	-44.3	-13.3	-14.3	-15.3	-15.2
Selected countries:											
Western Europe	16.1	6.2	-1.4	-1.2	-.1	-2.3	-5.4	-1.8	-2.3	-1.6	-1.5
Canda[2]	-6.0	-7.9	-10.2	-2.8	-2.7	-3.0	-3.7	-1.3	-1.4	-.9	-1.4
Japan	-43.4	-49.4	-59.9	-17.1	-15.0	-15.4	-16.8	-5.5	-5.7	-5.8	-5.3
OPEC (unadjusted)	-13.8	-11.2	-11.6	-1.6	-1.6	-3.7	-4.8	-1.6	-1.7	-1.8	-1.3
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$13.52	$11.80	$13.98	$15.70	$15.14	$16.06	$16.01	$15.03

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, November 18, 1994.

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